

Case  
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906 Lancaster Lake Dr.  
Houston, Tx 77073

## FRANCHISE DISCLOSURE DOCUMENT

### Stratus Building Solutions of Houston

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Houston, TX 77063  
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Email: m.bashforth@stratusclean.com

Stratus Building Solutions of Houston ("Stratus Houston") grants franchisees the right to operate a comprehensive building maintenance care business, providing commercial cleaning and maintenance services to interior and exterior environments of business and residential locations within a designated territory.

The total estimated initial investment necessary to begin operation of a Stratus unit franchise ranges from \$3,450 to more than \$57,750. This includes the initial franchise fee which must be paid to Stratus Houston is \$3,000 to \$47,000, depending on the type of a franchise plan you choose. You will also be required to purchase certain supplies and equipment prior to servicing your first client account. The cost of the basic initial supplies and equipment is estimated at \$450 to \$2000.

This Disclosure Document summarizes certain provisions of your franchise agreement and other information in plain English. Read this Disclosure Document and an all accompanying agreements carefully. You must receive this Disclosure Document at least 14 calendar days before you sign a binding agreement with, or make any payment to, Stratus Houston or an affiliate in connection with the proposed franchise sale. Note, however, that no government agency has verified the information contained in this document.

The terms of your contract will govern your franchise relationship. Don't rely on the Disclosure Document alone to understand your contract. Read all of your contract carefully. Show your contract and this Disclosure Document to an advisor, like an attorney or an accountant.

Buying a franchise is a complex investment, The information is this Disclosure Document can help you make up your mind. More information on franchising, such as A

Consumer's Guide to Buying a Franchise, which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission (FTC). You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

This Disclosure Document is effective as of August 24<sup>th</sup>, 2009.



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### STATE COVER PAGE

A. Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling in your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. Call the state franchise administrator listed in Exhibit E for information about the franchisor, or about franchising in your state.

B. MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

C. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION ONLY IN THE STATE OF TEXAS. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE WITH US IN TEXAS THAN IN YOUR HOME STATE.

D. THE FRANCHISE AGREEMENT STATES THAT TEXAS LAW GOVERNS SUCH AGREEMENT, AND THIS LAW MAY NOT PROVIDE YOU WITH THE SAME PROTECTIONS AND BENEFITS AS YOUR LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

E. THE FRANCHISE AGREEMENT REQUIRES THAT ALL DISPUTES, CONTROVERSIES AND CLAIMS OF ANY KIND ARISING OUT OF OR RELATED TO THE FRANCHISE AGREEMENT BE FIRST SUBMITTED TO NON-BINDING MEDIATION PRIOR TO ARBITRATION.

F. STRATUS AREA MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THIS DISCLOSURE DOCUMENT. HOWEVER, STRATUS AREA CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS DISCLOSURE DOCUMENT.

G. STRATUS HOUSTON HAS BEEN IN EXISTENCE FOR A SHORT PERIOD OF TIME, SINCE APRIL 24th, 2009. THEREFORE, THERE IS ONLY A BRIEF OPERATING HISTORY TO ASSIST YOU IN JUDGING WHETHER OR NOT TO MAKE THIS INVESTMENT.

H. THERE MAY BE OTHER RISKS CONCERNING THIS MASTER FRANCHISE. INFORMATION ABOUT COMPARISONS OF FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT E OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION.

We use the services of one or more franchise brokers or referral sources to assist us in selling our franchise. A franchise broker or referral source is *our* agent and represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

Effective Date: August 24, 2009



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## ITEM 1 THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

Throughout this Disclosure Document, "we", "us", or "our" means Stratus Building Solutions of Houston, the regional franchisor ("Stratus Houston"). "You" or "your" means the person who is considering or who actually purchases the franchise from us (the "Franchisee"). If the franchise is purchased by a corporation, limited liability company, partnership or other entity, then "you" may also mean the shareholders, members, partners, or other owners of that entity. The person or entity buying the franchise is referred to as a "Franchisee" in the franchise agreement attached as Exhibit A of this Franchise Disclosure Document (the "Franchise Agreement")

Stratus Building Solutions of Houston was originally organized in Texas on April 24, 2009. Stratus of Houston's principal business address is 2537 S. Gessner Rd., Suite 121, Houston, TX 77063. Stratus Houston has no predecessors or parents.<sup>1</sup> Its agent for service of process in Texas is Nina Bashforth, 25306 Willow Peak Lane, Katy, TX 77494

Stratus Houston acquired the rights to sell commercial cleaning franchises in TERRITORY for a 15-year period, plus two additional 15-year periods from Stratus Franchising, L.L.C., a Missouri limited liability company ("Stratus Franchising"), described in more detail below. Prior to that acquisition, Stratus Houston has never offered franchises of any kind. Furthermore, Stratus Houston has not offered franchises in any other type of business or conducted any other business activity.

Stratus Franchising is located at 1976 Innerbelt Business Center Drive St. Louis, MO 63114. Stratus Franchising was organized on October 19, 2006 in Missouri. Stratus Franchising has not offered franchises in any line of business other than commercial cleaning services and building maintenance care. Neither Stratus Franchising nor Stratus Houston nor anyone else listed in Item 2 below have conducted a business of the type being offered to you.

Stratus Franchising has granted to Stratus Houston the exclusive right to operate a Stratus Regional Franchise, and a license to use the trademarks, methods, procedures and products developed by Stratus Franchising, in the business of selling and servicing comprehensive cleaning and maintenance service franchises, as well as the sale, leasing or distribution of related supplies and equipment.

As a Stratus Regional Franchise operator, Stratus Houston will obtain your initial cleaning customers (also referred to as "accounts") based upon the franchise plan you choose and provide the other services as described in the Franchise Agreement and summarized in Item 11 of this Disclosure Document. Stratus Houston will license you to use the Stratus trademarks, trade names, service marks, programs, materials, and procedures. You or your employees will perform cleaning and/or maintenance-related services for the customer accounts on a daily, weekly, or monthly basis. Regular cleaning services include dusting, sweeping, waxing, buffing, sanitizing, etc. Maintenance-related

<sup>1</sup>



services may include such specialty services as carpet care, floor care, window washing, or wall cleaning. Your customers will be principally be businesses located in commercial offices and buildings, but may include residential properties with respect to their common areas or unoccupied units.

Stratus Houston will grant you a territory in which your customer accounts will be located. However, this territory is not an exclusive territory, meaning that Stratus Houston may grant other Stratus franchises in your territory. Therefore, your competitors include other janitorial services in the area, both franchised and independent, as well as potentially other Stratus franchisees. You must also compete with national and local businesses offering these same services. The market for these services is developed and operates year-round.

You must adhere to MSDS (Material Safety Data Sheets) which meet OSHA standards of regulations relating to chemicals or waste disposal laws.

## **ITEM 2 BUSINESS EXPERIENCE**

### **Mark Bashforth, President**

Mark Bashforth is our founder and President. He is an experienced Senior Sales and Marketing Executive with over 20 years of international and domestic experience in the energy, technology and publishing industries. He has a proven track record of creating growth and maximizing shareholder value and possesses start-up, reorganization management, strategic marketing, and brand management and board member expertise.

Prior to starting the Stratus Master Franchises in Houston and Austin, Mr. Bashforth held the position of President at Roxar Inc., located in Houston, Texas from January 2008 to April 2009. In this capacity he led operations in the Americas and created strategies and plans to ensure company achieved \$23MM revenue target in 2008.

From January 2003 until December 2007 he served as the Managing Director for Roxar Software Solutions based in Stavanger, Norway where he directed worldwide operations and grew annual revenues from \$25MM to \$50MM and EBITDA from \$8MM to \$14MM and delivered a CAGR of 16%.

### **Eleazar Quintana, Regional Director**

Eleazar Quintana is our Regional Director and assists the President in the sale and marketing of franchises. He is an experience Manger with over 20 years of experience in the Retail, Service, Building Maintenance and Janitorial Industries, Mr. Quintana has developed a diversified network of contacts and continues to cultivate many long term client relationships. His successful career has been driven by his commitment to customer service and his passion for excellence.



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Originally from Venezuela, Mr. Quintana graduated from UNITEC Carabobo where he earned an Associates Degree in Business Management before moving to the United States in 1980 to pursue a professional career in business.

Prior to joining Stratus Building Solutions in July 2009, Mr. Quintana was employed by KBM Services, from 2008 to 2009 in Houston, Texas where he was responsible for managing the company's key customers.

He served as Regional Branch Manager for AZTEC Facilities Services from 2006-2008 in Houston, Texas and was responsible for managing accounts in Louisiana, Oklahoma, and Texas.

Previously he was employed as Regional Branch Manager for GCA Services from 2000-2006 in Houston, Texas and was responsible for managing over 500 employees and USD8MM in revenue covering accounts in Louisiana, Mississippi, and Texas.

An active member in the local community, Mr. Quintana participates in many civic and cultural organizations including Habitat for Humanity, Cuban Association of Houston and United Way Campaigns.

### ITEM 3 LITIGATION

No litigation is required to be disclosed in this Disclosure Document.

### ITEM 4 BANKRUPTCY

No person previously identified in Items 1 or 2 of this Disclosure Document has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

### ITEM 5 INITIAL FEES

Stratus Houston offers franchise plans to fit various investment levels. If you would like customer accounts representing a higher level of gross annual billing to customers than the plans listed below, Stratus Houston can customize a plan to suit your specific needs.

#### Basic Level Franchise Plans

Plan #	Customer	<u>Initial Franchise Fee Financing Option</u>
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Plan #	Accounts (measured in gross annual billing)	Discounted Full Cash Payment*	<u>Initial Franchise Fee Financing Option</u>		
			Down Payment (Cash Payment at Signing)	Remainder Financed @ 15 % per year	Total if Financed*
SBS-6	\$6,000/Year (\$500/Month)	\$2,700	\$1,000	\$2,000 (\$69.33/Month)	\$3,000
SBS-9	\$9,000/Year (\$750/Month)	\$4,160	\$3,200	\$2,000 (\$69.33/Month)	\$5,200
SBS-12	\$12,000/Year (\$1,000/Month)	\$4,800	\$4,000	\$2,000 (\$69.33/Month)	\$6,000
SBS-18	\$18,000/Year (\$1,500/Month)	\$6,560	\$5,000	\$3,200 (\$110.93/Month)	\$8,200
SBS-24	\$24,000/Year (\$2,000/Month)	\$8,000	\$6,000	\$4,000 (\$138.66/Month)	\$10,000
SBS-30	\$30,000/Year (\$2,500/Month)	\$9,600	\$7,000	\$5,000 (\$173.33/Month)	\$12,000

\*Any applicable sales tax due not included.

### Management Level Franchise Plans

Plan #	Customer Accounts (measured in gross annual billing)	Discounted Full Cash Payment*	<u>Initial Franchise Fee Financing Option</u>		
			Down Payment (Cash Payment at Signing)	Remainder Financed @ 15 % per year	Total if Financed*
SBS-36	\$36,000/Year (\$3,000/Month)	\$10,800	\$8,500	\$5,000 (\$173.33/Month)	\$13,500
SBS-48	\$48,000/Year (\$4,000/Month)	\$13,760	\$12,200	\$5,000 (\$173.33/Month)	\$17,200
SBS-60	\$60,000/Year (\$5,000/Month)	\$15,600	\$14,500	\$5,000 (\$173.33/Month)	\$19,500
SBS-72	\$72,000/Year (\$6,000/Month)	\$17,920	\$17,400	\$5,000 (\$173.33/Month)	\$22,400
SBS-84	\$84,000/Year (\$7,000/Month)	\$18,960	\$18,700	\$5,000 (\$173.33/Month)	\$23,700

\*Any applicable sales tax due not included.

### Executive Level Franchise Plans

Plan #	Customer Accounts (measured in gross annual billing)	Discounted Full Cash Payment*	<u>Initial Franchise Fee Financing Option</u>		
			Down Payment (Cash Payment at Signing)	Remainder Financed @ 15 % per year	Total if Financed*
SBS-96	\$96,000/Year (\$8,000/Month)	\$21,760	\$22,200	\$5,000 (\$173.33/Month)	\$27,200
SBS-120	\$120,000/Year (\$10,000/Month)	\$23,800	\$24,750	\$5,000 (\$173.33/Month)	\$29,750



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SBS-150	\$150,000/Year (\$12,500/Month)	\$30,000	\$30,000	\$7,500 (\$259.99/Month)	\$37,500
SBS-180	\$180,000/Year (\$15,000/Month)	\$33,600	\$34,500	\$7,500 (\$259.99/Month)	\$42,000
SBS-204	\$204,000/Year (\$17,000/Month)	\$37,600	\$39,500	\$7,500 (\$259.99/Month)	\$47,000

*\*Any applicable sales tax due not included.*

Regardless of what plan you choose, you must pay an initial franchise fee to Stratus Houston. As shown in the tables above, the initial franchise fees range from \$2,700 to \$47,000. The amount of the initial franchise fee will vary depending on your choice of plan and whether or not you choose to pay the entire amount in cash upon signing the Franchise Agreement or if you choose to have the fee financed with Stratus Houston.

If you elect to pay the initial franchise fee in cash or certified funds, then the full amount listed in the "Discounted Full Cash Payment" column of the above tables will be due when the Franchise Agreement is signed. Please note that this amount does not include any applicable sales tax owed by you.

If you elect instead to finance the initial franchise fee through Stratus Houston, then only the amount listed in the "Down Payment" column in the tables above will be paid by you in cash or certified funds at the signing of the Franchise Agreement. The remainder of the initial franchise fee will accrue interest at 15% per year and will be secured through a promissory note and/or a personal guarantee. The promissory note is repaid in thirty-six monthly installments, but there is no penalty for an earlier pre-payment. The "Total if Financed" column in the tables above shows the total amount you will have paid as the initial franchise fee if you elect to obtain financing through Stratus Houston. Please note that this amount does not include any applicable sales tax owed by you. Please see Exhibit B of this Disclosure Document for the form of the promissory note and Item 10 of this Disclosure Document for more information pertaining to Stratus Houston financing.

No portion of the initial franchise fee is refundable and is fully earned by Stratus Houston when paid. However, if Stratus Houston, within the time allowed by the Franchise Agreement following the date you complete training, fails to offer you with customer accounts with gross annual billing equivalent to that stated in your selected franchise plan for which you have contracted, then Stratus Houston will refund a portion of your initial franchise fee equal to the difference between the initial franchise fee of the franchise plan for which you originally contracted and the initial franchise fee of the plan that corresponds with the number of accounts that have actually been offered to you by Stratus Houston.

For example, if you originally contracted with Stratus Houston for an SBS-24 franchise plan and paid the full discounted cash payment, then you paid an initial franchise fee of \$8,000 and Stratus was obligated to provide you with customer accounts with gross



annual billing equaling \$24,000 per year. If Stratus Houston within 120 days only offered you \$18,000 in customer accounts, then Stratus Houston would owe you a credit calculated as follows:

$$\begin{aligned} &\$8,000 \text{ (the initial franchise fee for an SBS-24)} - \$6,560 \text{ (the initial franchise fee for an SBS-18)} \\ &= \$1,440 \end{aligned}$$

Stratus Houston first will apply this credit to any outstanding financing and or monies owed by you to Stratus Houston. If none exist, then a cash refund will be given or applied to your future accounts. If a credit is provided, then Stratus Houston will have fulfilled its obligation to you and the refund will be your sole remedy.

For veterans of the U.S. military forces, and to all qualifying veterans, Stratus Houston offers the opportunity to enjoy a 10% discount off the initial franchise fee for any franchise plan. This program is available for all veterans who have received an honorable discharge from the U.S. Military. If the franchise will be operated as a limited liability company, partnership or corporation, the veteran participant must maintain at least a 51% interest in the company and be a "hands on" partner. A copy of the form DD-214 evidencing the status of a participating veteran must be submitted at the time the Franchise Agreement is signed.

#### ITEM 6 OTHER FEES

Type of Fee*	Amount	Due Date	Remarks
<b>Royalty (1)</b>	5% of Gross Revenues for the preceding calendar month	Deducted on last workday of the following month.	The amount of the Royalty may vary based upon the monthly Gross Revenue generated by you. Minimum is \$50.00 per month.
<b>Administration (2)</b>	10% of Gross Revenue for the preceding calendar month	Deducted on last workday of the following month.	The amount of the Administration Fee may vary based upon the monthly Gross Revenue generated by you.
<b>Business Insurance (3)</b>	6.5% of Gross Revenue for the preceding calendar month	Deducted on last workday of the following month.	The Business Insurance fee is optional but you must carry the minimum business insurance required by Stratus. The amount of the Business Insurance fee may vary based upon the monthly Gross Revenue generated by you if such insurance is provided by Stratus.

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Type of Fee*	Amount	Due Date	Remarks
<b>Additional accounts- Account Acquisition (4)</b>	\$ (additional billing provided by the new account) - \$ (Business owed by you to Stratus AREA) x (3 or 4 or 5) = Account Acquisition fee.	At time the additional customer account is accepted by you. May be financed.	You are not obligated to accept additional customer accounts offered by Stratus AREA. The Account Acquisition fee may fluctuate quarterly for some customer accounts. There is a possible 10% discount if this fee is paid in full upon your acceptance of the additional account.
<b>Sale of Franchise- Transfer Fee (5)</b>	5% of yearly Gross Revenue of customer accounts being sold/transferred with a minimum fee of \$750. 10% of sales price if transfer 10% or more of ownership in Franchisee.	On date of transfer	Payable when you sell or transfer your franchise. There is no charge if transferred to an immediate family member or company which you own wholly.
<b>Name Changes - Additions/Deletions (6)</b>	Flat fee of \$250.00	On date of name addition or deletion	No fee if name changes to a corporation which you own wholly.
<b>Account Transfer Fee (7)</b>	5-10% of average monthly billing or \$50 to \$100.00 whichever is greater.	Deducted in the month of occurrence.	Payable only upon transfer of an account.
<b>Isolated Services (8)</b>	10% of the price for the services stated in the contract	Deducted upon receipt of payment from customer.	You are not obligated to take such accounts. If Stratus AREA does not offer you the isolated service contract, but instead you generate it then you do not owe this fee.
<b>Re-Training (9)</b>	\$75.00 per class	Prior to scheduling re-training	
<b>Advertising Fee (11)</b>	\$0		No fee currently

**\*All of these fees are payable to Stratus Houston and are not refundable. Please see Items 7 and 8 of this Disclosure Document for additional information concerning your purchases from third party suppliers.**

- Royalty** – You will pay a monthly royalty fee equal to 5% of the monthly Gross Revenues for the preceding month. "Gross Revenues" means the total amount of all



bills and invoices sent by Stratus Houston to each account serviced by you during a calendar month, whether the bills and invoices represent janitorial services, goods, supplies or any other services or products.

**2. Administration** – Stratus Houston provides you with billing and collection services for all the services and supplies you have provided your customers [and lines of credit with suppliers]. Stratus Houston will also provide you with a monthly report detailing gross revenues along with any deductions. In exchange for such services, you will pay Stratus Houston an administration fee equaling 10% of your monthly Gross Revenue.

**3. Business Insurance** – Stratus Houston requires you to carry \$5,000,000 in liability insurance, \$100,000 in Fidelity bonding, \$300,000 in theft insurance and Workers Compensation if required by your state. You must also purchase comprehensive general liability insurance, including property, bodily injury, automotive and product coverage.

Stratus Houston may make available to you, as a convenience, an insurance program in which you may participate if you choose. The program offered by Stratus Houston includes \$5,000,000 in liability insurance, \$100,000 in Fidelity bonding, and \$300,000 in theft insurance. You must acquire your own workers compensation insurance if by law you meet the requirements outlined by your state for this type of insurance. Stratus Houston reserves the right to either discontinue offering its business insurance or to make it mandatory for you to participate in the Stratus Houston business insurance program. You must also show proof of coverage in written form and you must name Stratus Houston and Stratus Franchising as additional insureds.

**4. Account Acquisition Fee** – If you choose to accept accounts that are over and above the gross revenue as described in the franchise plan you have selected, then you will be obligated to pay Stratus Houston an account acquisition fee. This fee is calculated as depicted below:

$$\begin{array}{ccccccc} \$ & & - & \$ & = & \$ & \\ \text{Additional Billing} & & & \text{Business Owed} & & \text{Billing Volume Difference} & \times \frac{3}{4/5} = \text{Multiplier Account Acq. Fee} \end{array}$$

In other words, the account acquisition fee is the difference between the billing provided by the additional account and any business owed to you by Stratus Houston (if any) multiplied by 3, 4 or 5. The use of 3 or 4 or 5 multiplier in the calculation depends upon the size of the franchise plan you've chosen.

- If you invest below the SBS-12 level, or the gross revenue from the month prior to accepting the new account was less than \$12,000 per year, then the 5 multiplier will be used.



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- If you invest at the SBS 12 plan or higher, but the gross revenue from the month prior to accepting the new account was less than \$30,000 per year, then the 4 multiplier will be used.
- If you invested at the SBS 24 level or higher, or the gross revenue from the month prior to accepting the new account is \$30,000 or greater per year, then the 3 multiplier will be used.

If you pay the account in full at the time you accept such account, you will receive a 10% discount in the fee. The value of this additional customer account will also be replaced if the account is lost for any reason other than poor performance, theft, security or no shows.

Financing may be available provided that you have not had a complaint or unacceptable inspection from any of their current customers within the previous 60 days. Accounts that are financed receive no discounts and are not replaced for any reason. If the account cancels for issues that are not performance related, you will not receive any credits or refunds. If the account cancels for performance reasons, franchisee will owe the remainder of the amount financed. If an account that was paid in full cancels for performance reasons, franchisee is not due any refund or credits.

You may obtain additional customer accounts from Stratus Houston and not be obligated to pay the account acquisition fee if you refer someone to Stratus Houston. When the person you referred to Stratus Houston purchases a franchise, you will receive additional customer accounts equivalent to 10% of whatever franchise plan they purchased. For example, if the person you referred purchases an SBS-60, you will receive \$6,000 in annual business free in the form of new customer accounts.

You may also solicit new business yourself. In this case, you would pay no account acquisition fees to Stratus for these new business accounts. Please note that while in the process of soliciting your own business you ask Stratus Houston to assist in the bidding and negotiation process, an account acquisition fees (or a partial fee) may be due to Stratus Houston depending on its level of involvement. However, the revenues from these new business accounts will be included for the purpose of calculating the royalty fees, management fees, and (if applicable) insurance fees that you must pay to Stratus Houston. In other words, all of your business will be included for the purpose of calculating royalties, management, insurance, and other fees.

**5. Sale of Franchise Transfer Fee-**There will be a transfer fee upon the sale of your franchise unless you transfer your franchise to an immediate family member or to a company which you own wholly. This fee is 5% of your annual Gross Revenue of the accounts being sold, or \$750, whichever is greater. You may not sell an individual account or accounts. Fee is due upon signing of new franchise agreement. In the case of a transfer of 10% or more of the ownership interest in the Franchisee, a transfer fee equal to 10% of the sales price of such ownership interest is payable to the Franchisor.



**6. Name Changes, Additions and Deletions** – You are permitted to add or delete a person from the franchise agreement only if you first obtain written approval from Stratus Houston and pay an administration fee of \$250. This fee is due at the time of the change. New promissory notes may be required as well. Stratus Houston reserves the right to deny the release of anyone from a previously signed promissory note. If all of the original parties are being removed from the franchise agreement, the procedure will be treated as a sale of your franchise and #5 above will be invoked.

**7. Account Transfer Fees** – You may request to transfer out of a customer account at any time. Because the transfer of any customer account destabilizes such account, the following transfer fees will be charged if:

- The transfer is requested within 120 days from starting the account, a transfer fee equal to 10% of the monthly billing or a minimum of \$100 will apply.
- If the request to transfer is after 120 days but less than one year, a transfer fee equal to 5% of the monthly billing or a minimum of \$50 will apply.
- If the account has performance issues and has to be closed, an additional performance transfer fee of 10% of the monthly billing or a minimum of \$100 will apply.

**8. Isolated Services** – Special or isolated services are typically one time services that include floor care, carpet cleaning, window washing, construction cleanup, etc. These services include painting, lawn care, snow removal, etc. You are not obligated to open an isolated service account. These services will not be included in your monthly gross revenues, but will be reported and invoiced separately. Each time you perform an isolated or special services, you will pay Stratus Houston a fee of 10% of the monthly billing for that isolated service in addition to your royalty and other fees. If you acquire an isolated service account on your own, you must not already have an account with Stratus Houston or is being serviced by you, then you do not owe the isolated service fee; however, you will still pay Stratus Houston the royalty, administration and insurance.

**9. Re-Training** – You may request re-training for specific areas or in general. Requested training is free if you have not had any complaints from your current customers and if you participate in a scheduled class. Please see Item 11 of this Disclosure Document for more information pertaining to Stratus Houston's training program. Mandatory re-training may be required in part or in whole, if you have had multiple customer complaints, lost a customer account, or had a customer account transferred due to performance issues. The re-training fee is presently \$75 per class and is payable in full prior to the class being scheduled. No future customer accounts will be offered to you until you satisfactorily complete this training and you will not qualify for financing for the next two "additional accounts" you choose to accept. Please see Item 10 of this Disclosure Document for more information pertaining to financing of additional account fees.



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10. **Advertising** – Stratus Houston does not currently charge an advertising fee, but it reserves the right to do so. If Stratus Houston does decide to charge an advertising fee, it will do so upon 30 days written notice to you. If an advertising fee is implemented it will range between .05% of revenue up to but not exceeding \$500 annually. See Item 11 of this Disclosure Document for more information about any potential advertising fee/fund.

### ITEM 7 YOUR ESTIMATED INITIAL INVESTMENT

Type of Expenditure	Low Amount	High Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee (1)	\$2,700	\$47,000+	Lump Sum or Financing from Stratus AREA	Signing of Franchising Agreement	Stratus AREA
Training Expenses (2)	\$0	\$500	As Incurred	Before training commences	Stratus AREA
Professional Costs (3)	\$0	\$2000	As Incurred	As Incurred	Third Parties
Real Estate (4)	\$0	\$750	Lump or Lease	As Arranged	Third Parties
Vehicle (5)	\$0	\$500	If Necessary	As Arranged	Third Parties
Insurance (6)	\$100	\$2500	Lump Sum	As Arranged	Third Parties
Equipment & Supply Starter Package (7)	\$550	\$2000	Lump Sum	Prior To Opening	Approved Suppliers
Business Licenses (8)	\$75	\$500	Lump Sum	As Arranged	Third Parties
Additional Funds (4 months) (9)	\$25	\$2000	As Incurred	As Arranged	Third Parties
<i>Total Estimated Initial Investment</i>	\$3,450	\$57,750			

Unless otherwise stated, these expenditures are not refundable unless expenditures to third parties are refundable by their terms. Except as expressly stated, these estimates cover your initial cash investment up to the opening of your business. The ranges and categories of expenses listed on the table above are based solely on the experience of Stratus Franchising and your expenses may be significantly different depending on the market in your Houston and local costs. Do not rely on this estimate of expenses to project your future



performance because your expenses may differ from the ranges above and you will have additional expenses which we have not listed.

**1. Initial Franchise Fee** – The amount of the initial franchise fee is dependent upon the franchise plan selected and whether or not you choose to pay the entire amount in cash upon signing the Franchise Agreement or if you choose to have the fee financed with Stratus Houston. The investment range may continue beyond the listed upper limit if Franchisee desires a larger package than depicted in the tables in Item 5 of this Disclosure Document. All payments must be in cash or certified funds. The initial franchise fee is considered earned by Stratus Houston upon signing the Franchise Agreement. A portion may be refunded if all accounts are not offered in the appropriate amount of time. Please see Item 5 of this Disclosure Document more information pertaining to the initial franchise fee and any refunds. Please see Item 10 for more information pertaining to financing options for the franchise fee.

**2. Training Expenses** – Training is mandatory and must be completed in its entirety and you must pass all testing before being offered any customer accounts. The training sessions are typically completed locally, within your territory, and should not require overnight or out of town travel. If travel were to be necessary, however, you would be responsible for all expenses. Please see Item 11 of this Disclosure Document for more information pertaining to the training program.

**3. Professional Costs** – At your option, you may choose to consult with an accountant or an attorney to help you set up your business. We recommend that you consider this.

**4. Real Estate** – Stratus Houston does not require you to have an office or storage facility outside your home. Most Franchisees operate their business from their home, while utilizing the storage space that many customers provide. You may choose to keep your equipment in a storage facility.

**5. Vehicle** – You may drive your personal vehicle to and from the customer accounts you service. There is no requirement to purchase a special vehicle for your business. Any vehicle driven must be insured. Please see note 6 below for more information pertaining to insurance.

**6. Insurance** – You must carry vehicle insurance that has a liability minimum \$250,000, or meets your states requirements, whichever is greater. You must also carry the insurance as described in Item 6 of this Disclosure Document. Insurance carriers may require you to pay for the coverage in full or make a deposit toward the estimated premium.

**7. Equipment & Supply Starter Package** – You must purchase a basic starter package from an approved vendor that distributes professional quality equipment and supplies before you are qualified to service any customer accounts. The contents of the basic starter package are listed on Exhibit D of this Disclosure Document. This is a basic package and may be enhanced to more accurately fit the needs of your customer